

27 February 2012

Background and Scope

I was contacted by Mr. Max Penashue, a representative of a group of Members of the Sheshatshiu Innu First Nation who have concerns about the Sheshatshiu and Mushuau First Nations Trust Fund.

On March 27, 2007 the Sheshatshiu and Mushuau First Nations Trust was settled by the Sheshatshiu Innu First Nation and the Mushuau Innu First Nation to receive payments from an Impact Benefit Agreement with Vale Inco Newfoundland and Labrador Limited.

The beneficiaries of the Trust include the Sheshatshiu Innu First Nation, and the Mushuau Innu First Nation, and all members of the First Nations and Innu Nation. The Deed of Trust provides that the trust property is to be held as a long-term asset for the benefit and enjoyment of the beneficiaries and the trustees shall administer the trust as set out in the Deed of Trust. The Fund is to be used to:

- Meet the obligations of the Innu Nation, the First Nations, and the Trustees to repay the amounts owing by Innu Nation to the Bank of Montreal.
- Fund the Impact Benefit Agreement implementation costs of Innu Nation.
- To enhance and improve the health and well-being of the First Nations and the members of the First Nations.

There are 6 community Trustees, 3 from Sheshatshiu and 3 from Mushuau, and BMO Trust Company has been appointed as Corporate Trustee.

Mr. Penashue asked me to review the most recently audited financial statements (i.e. December 31, 2010) for the Sheshatshiu and Mushuau First Nations Trust Fund and provide my observations and interpretation of the financial information. He also requested that I meet with officials of BMO Trust Company, Corporate Trustee, to obtain information relating to their administration of the Sheshatshiu and Mushuau First Nations Trust Fund.

Although I had the December 31, 2010 audited financial statements, I was not provided with any Management Letter that may have been issued by the financial statement auditors and which would have outlined any weaknesses and issues they identified during the audit.

I completed my review based on the information provided to me and my comments are outlined below.

27 February 2012

General Observations

1. Changes to the Trust Deed

The current Trust Deed has a provision which states that no changes are allowed to the Deed until after April 1, 2013. Currently, one half of all money received goes to the Teshipitakan Fund to benefit future generations after the mine closes. The other half of the money goes to the Sheshatshiu Innu Improvement Fund and the Mushuau Innu Improvement Fund.

The Teshipitakan Fund has seen considerable growth (capital totaling \$115,379,327 at December 31, 2010) and there are restrictions on the distribution of monies to ensure that funds are used as originally intended i.e. to benefit future generations after the mine closes.

- Are there any proposed changes to the Trust Deed which will make it easier to distribute monies from the Teshipitakan Fund after April 1, 2013?
- As a community, what control do we have over any proposed changes to the Trust Deed?

2. Project Approval

Currently, requests for funding are sent to BMO Trust Company where they are checked to determine whether the proposal is in compliance with the requirements of the Trust Deed and whether the proposal has merit.

- Do officials at BMO Trust Company have any concerns about the types of requests for funding they receive?
- Have there been any noticeable changes in the types of funding requests since the Trust Fund was established?
- What are the documentation requirements relating to funding provided?
- After working with the Trust Deed and understanding how funding requests are made, can BMO officials offer any suggestions as to how processes could be changed to enhance due diligence and ensure projects are approved based on merit.

27 February 2012

Page 3

3. Project Funding

Projects can be funded by either Government or through the Trust Fund. It would be inappropriate for a project to be funded twice.

- When a project is approved for funding is there any check by BMO Trust Company to determine whether the project was also funded from another source e.g. the Federal or Provincial Governments?

4. Payments to Community Members

There have been payments to Sheshatshiu Community Members from the Trust Fund.

- How much has been paid to Sheshatshiu Community Members each year?
- Can BMO officials explain the process relating to Trust Fund payments to Community Members?

5. Trust for Minor Members

Trusts have been established for all Minor Members of the Community.

- How many Minors are in Sheshatshiu?
- In total, how much money has been allocated to Minors?
- Is the money in the Minor's trust frozen for the person until they reach the age of maturity or can the monies be accessed by guardians for use now? If monies can be accessed now, what are the types of expenditures that would qualify?

6. Fund - Rate of Return

BMO Fund Managers are responsible for investing the Trust Fund's asset portfolio.

- How is the Trust Fund performing - what is the rate of return on Trust assets each year since inception?

27 February 2012

Observations relating to the Trust Fund Financial Statements

Auditors' Report

The Auditors issued their Report on the financial statements without any qualification. The Auditors concluded that *"In our opinion the financial statements present fairly, in all material respects, the financial position of the Sheshatshiu and Mushuau Innu First Nations Trust as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles"*.

It is important to understand that, while a financial statement audit provides reasonable assurance regarding compliance with Canadian generally accepted accounting principles, it is only one piece of what is normally required for a government type entity to be fully accountable. A comprehensive audit, sometimes referred to as a legislative audit, consists of the following components: a financial statement audit; an audit to determine compliance with legislation and authorities; and, a determination of whether an entity received value-for-money spent. A comprehensive audit provides much more openness and accountability for citizens and is why the Federal and all provincial and territorial governments are subjected to comprehensive audits.

- Have the Trustees ever considered engaging professionals to undertake a comprehensive audit of the Fund activities so that citizens will have sufficient information to determine how their Fund is performing?

Consolidated Statement of Financial Position (Page 2)

The Consolidated Statement of Financial Position (Page 2) shows that the Sheshatshiu Innu Improvement Fund owes the Teshipitakan Fund \$1,179,751 as at December 31, 2010.

Furthermore, the Statement of Cash Flow (Page 5) shows that the Sheshatshiu Innu Improvement Fund received a total of \$1,735,419 from the Teshipitakan Fund during 2010.

- Why would the Sheshatshiu Innu Improvement Fund have received \$1,735,419 from the Teshipitakan Fund during the year?
- When is the Sheshatshiu Innu Improvement Fund expected to repay the \$1,179,751 owing to the Teshipitakan Fund at December 31, 2010?

27 February 2012

Page 5

Consolidated Statement of Capital (Page 4)

At December 31, 2010, the Sheshatshiu Innu improvement Fund had Capital totaling \$919,211, the Mushuau Innu Improvement Fund had Capital totaling \$8,859,925 and the Teshipitakan Fund had Capital totaling \$115,379,327.

The \$919,211 Sheshatshiu Innu improvement Fund is comprised of the following:

| | |
|---------------------------|-------------------|
| Capital January 1, 2010 | \$3,744,252 |
| Add: Net Income for 2010 | 2,383,710 |
| Capital contributions | <u>2,113,860</u> |
| | <u>8,241,822</u> |
| Less: Loan payments | 700,000 |
| Elders payments | 270,000 |
| Emergency Assistance | 300,000 |
| Capital improvements | 2,952,575 |
| Community disbursements | 2,561,536 |
| Travel | 245,500 |
| Community health | 93,000 |
| Outpost program | <u>200,000</u> |
| | <u>7,322,611</u> |
| Balance December 31, 2010 | <u>\$ 919,211</u> |

- The \$919,211 capital balance at December 31, 2010 seems low. Have there been any attempts made to access monies from the Teshipitakan Fund?
- Does this low balance in any way relate to the \$1,735,419 (see Statement of Cash Flow [Page 5]) received from the Teshipitakan Fund during 2010?
- Are there any details available on who received the \$7,322,611 of disbursements during 2010?
- Are all expenditures approved by the Trustees before any payments are made?

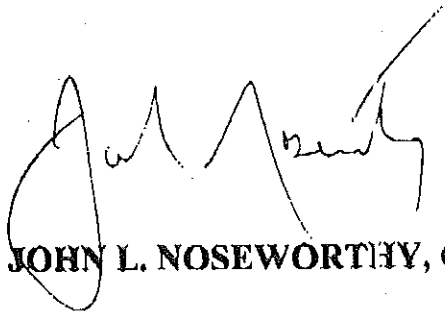
27 February 2012

Page 6

Note 7 (Page 6c) Commitments

Note 7 to the financial statements indicates that the Trust has committed \$9,215,681 to be distributed to beneficiaries. The \$9,215,681 is comprised of \$2,174,764 committed from the Shetshatshiu Innu Improvement Fund and \$7,040,917 committed from the Mushuau Innu Improvement Fund. The commitment has neither been paid nor accrued as of December 31, 2010.

- What does this commitment relate to?
- How will this be funded?



JOHN L. NOSEWORTHY, CA